

Message Text

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C O N F I D E N T I A L SECTION 1 OF 3 EC BRUSSELS 04875

E.O. 11652: GDS

TAGS: EGEN, ETRD, PFOR, EEC

SUBJECT: US-EC CONSULTATIONS, MAY 29-30, 1975

REF: STATE 124719

1. SUMMARY: THE TENTH ROUND OF US-EC COMMISSION CONSULTATIONS RANGED OVER BOTH TRADITIONAL TRADE ISSUES AND BROADER POLITICAL AND ECONOMIC SUBJECTS. THE TWO SIDES EXCHANGED VIEWS REGARDING RELATIONS WITH A LARGE NUMBER OF THIRD COUNTRIES. AND GENERALLY EXPRESSED UNDERSTANDING FOR THE OTHER'S AIMS. ON TRADE, THE TWO SIDES EXCHANGED COMPLAINTS ON ISSUES SUCH AS COUNTERVAILING DUTIES AND POULTRY, BUT WITHOUT ACRIMONY. THE COMMISSION REVEALED CONSIDERABLE DISTRUST OF US MOTIVES IN PRESSING FOR LONDON CONSIDERATION OF GRAINS STOCKPILING. THE COMMISSION WAS INTERESTED IN AND SOUGHT AUTHORITATIVE INTERPRETATIONS OF RECENT US INITIATIVES ON RAW MATERIALS AND ENERGY. IN THE LATTER CASE THE COMMISSION WAS GENERALLY FAVORABLE TO SEC. KISSINGER'S PARIS PROPOSALS, BUT EXPRESSED SOME DOUBT WHETHER THEY WOULD BE ACCEPTABLE TO OTHER. THE TONE OF THE CONSULTATIONS

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WAS SET ON THE ONE HAND BY CONTINUING EC RESENTMENT OVER THE CHEESE

AFFAIR, AND ON THE OTHER BY THE MOMENTUM ACHIEVED BY THE MEETINGS EARLIER IN THE WEEK IN THE IEA AND THE OECD MINISTERIAL. BOTH SIDES STRESSED THE NEED FOR CLOSE CONSULTATION ON A VARIETY OF ISSUES SO AS TO "HARMONIZE" -- IF NOT UNIFY--THEIR POSITIONS. END SUMMARY.

2. HE US-EC COMMISSION CONSULTATIONS WERE COMPRESSED IN TIME--A WORKING DINNER ON MAY 29 PLUS FOUR-AND-A-HALF HOURS OF PLENARY MAY 30. (UNDER SECRETARY ROBINSON, SEPARATELY, CALLED ON ORTOLI AND MET BRIEFLY WITH THE NINE PERMREPS MAY 30. HE ALSO PARTICIPATED IN A JOINT PRESS CONFERENCE WITH SOAMES.) THE AGENDA, HOWEVER, WAS LONG, AND COVERED A BROAD RANGE OF ISSUES.

3. RELATIONS WITH THIRD COUNTRIES. THESE WERE PRINCIPALLY DISCUSSED AT THE MORE RESTRICTED DINNER MEETING ON MAY 29.

A. CHINA: SOAMES SUMMED UP HIS TRIP TO CHINA ALONG LINES ALREADY REPORTED BY THE MISSION, STRESSING CHINESE SUPPORT FOR A STRONG, COHESIVE WESTERN EUROPE; THEIR FEAR OF THE USSR; THEIR INTEREST IN STRONG US-EUROPEAN TIES, AND THEIR RELIEF THAT THE US IS OUT OF SOUTHEAST ASIA AND ABLE TO CONCENTRATE ON CONTAINING THE USSR.

B. IRAN: SOAMES TALKED ALONG LINES PREVIOUSLY REPORTED BY THE MISSION. SOAMES SAID THE IRANIANS ARE HOOKED ON THE IDEA OF A SPECIAL PREFERENTIAL ARRANGEMENT, WHICH THE COMMUNITY CONTINUED TO RESIST FOR ITS OWN REASONS. MEMBER STATES ARE DIVIDED OVER SPECIAL PREFERENCES BUWANT THE COMMISSION TO FIND A WAY TO PACIFY THE IRANIANS. SOAMES SAID HE BELIEVES IRAN COULD BE TAKEN CARE OF THROUGH USE OF GSP. WELLERSTEIN SAID IN RESPONE TO QUESTIONS THAT THE COMMISSION DID NOT SEE A NEED FOR SPECIAL MODIFICATIONS IN THE EC GSP FOR IRAN. IRAN AND THE EC HAVE AGREED TO EXPLORATORY DISCUSSIONS WHILE EACH RESERVES ITS POSITION. UNDER SECRETARY ROBINSON EMPHASIZED THAT THE US HAS MADE CLEAR TO THE IRANIANS CONTINUED US OPPOSITION TO AN EC/IRANIAN PREFERENTIAL ARRANGEMENT.

C. PORTUGAL: LOWENSTEIN (STATE) SAID THAT THE
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WASHINGTON VIEW IS WAIT-AND-SEE. THE MODERATES SEEM TO BE LOSING GROUND. ALSO, PORTUGUESE OFFICIALDOM IS TOO DISORGANIZED TO MAKE PROMPT USE OF THE AID MADE AVAILABLE BY THE US. SOAMES SAID THE EC WANTS TO DO WHAT IT CAN BUT FEARS BEING OVERCOMMITTED SHOULD THE PORTUGUESE SITUATION FALL APART. WELLERSTEIN TOOK A SLIGHTLY DIFFERENT VIEW, ON THE BASIS THAT WHAT THE EC IS SEEKING TO DEVELOP

IS SOMETHING TO BE IMPLEMENTED LATER--AND WHICH IF NECESSARY
WOULD BE WITHDRAWN.

D. CSCE: SOAMES, SAYING HE SPOKE PERSONALLY,
FEARED THAT A CSCE SUMMIT WOULD LEAD THE PUBLIC TO FEEL
THAT DETENTE IS HERE AND DEFENSE EFFORTS LESS NECESSARY.
LOWENSTEIN DISAGREED. HE FELT THAT THE PUBLIC BE EDUCATED TO
VIEW CSCE IN PROPER PERSPECTIVE, AS A GAIN FOR THE WEST.

E. MEDITERRANEAN: THE EC SIDE RAN OVER THE CON-
TENT AND STAGE OF NEGOTIATIONS OF ITS PRESENT AND
PROPOSED AGREEMENTS WITH MEDITERRANEAN COUNTRIES.
SOAMES SAID HE EXPECTED THE GREEKS TO ASK FOR FULL
EC MEMBERSHIP IN A FEW MONTHS--AND NO CURRENT EC MEMBER
STATE WOULD WANT TO SAY "NO". THIS WOULD
POSE A DIFFICULT SITUATION VIS-A-VIS TURKEY. THE
EC SIDE SAID IT WAS NOT SEEKING REVERSE PREFERENCES
IN ITS AGREEMENTS WITH THE MAGHREB. UNDER SECRETARY
ROBINSON DESCRIBED THE JOINT COMMISSIONS
THE US HAS SET UP WITH NEAR EASTERN COUNTRIES.
WELLENSTEIN SAID THE COMMISSION WAS MUCH INTERESTED
IN AND WOULD LIKE COMPREHENSIVE INFORMATION ON THE JOINT
COMMISSIONS.

F. CANADA AND MEXICO: SOAMES SAID THE COMMISSION HAD
PROPOSED THAT THE COUNCIL AUTHORIZE IT TO NEGOTIATE
AN ECONOMIC COOPERATION AGREEMENT WITH CANADA.
HIJZEN SAID IT WAS PREMATURE TO RESPOND TO US
REQUESTS FOR PRECISE DETAILS ON THIS PROPOSED AGREEMENT
BUT WENT OVER THE FAMILIAR GENERAL EXPLANATION
THAT THIS WAS A "FRAMEWORK AGREEMENT", WITHOUT
INVOLVING FORMAL ENGAGEMENTS ON EITHER SIDE, AND
RECOGNIZING THAT ACTUAL INDUSTRIAL COOPERATION DEPENDED
ON THE DECISIONS OF INDIVIDUAL PRIVATE FIRMS,
HE SAID THE COMMISSION PROPOSAL REFLECTED CANADIAN
ATTITUDES, AS WELL AS THOSE OF THE COMMISSION. SOAMES ADDED
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THAT THE COMMISSION WAS OFFERING MEXICO A TRADITIONAL
COMMERCIAL COOPERATION AGREEMENT WITH AN "EVOLUTIVE CLAUSE"
LIKE THAT IN THE EC-INDIA AGREEMENT.

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C O N F I D E N T I A L SECTION 2 OF 3 EC BRUSSELS 04875

4. US-EC RELATIONS. THIS PORTION OF THE DISCUSSIONS
FELL INTO FOUR PARTS:

A. US ECONOMIC CONDITIONS. UNDER SECRETARY
ROBINSON DESCRIBED THE US ECONOMY AS SHOWING SIGNS
OF EMERGING FROM RECESSION, BUT AT A RELATIVELY
SLOW RATE. DEPUTY UNDER SECRETARY SEGALL
(LABOR) ADDED THAT UNEMPLOYMENT FIGURES, NOW AT
RECORD LEVEL, WOULD REFLECT IMPROVEMENT IN ECONOMIC
CONDITIONS ONLY AFTER A TIME LAG. ROBINSON, AFTER
NOTING THAT THE US WAS INCREASINGLY CONCERNED ABOUT
THE LONG RUN DANGERS OF INFLATION, WOUND UP BY
STATING THAT IN VIEW OF THE INTERDEPENDENCE OF
NATIONAL ECONOMIES, IT WAS IMPORTANT THAT NATIONS
BETTER COORDINATE THEIR ECONOMIC POLICIES.

B. EC CONCERN ABOUT DOLLAR. SOAMES EXPRESSED
WHAT HE SAID WAS WIDESPREAD EUROPEAN CONCERN
ABOUT THE WEAKNESS OF THE DOLLAR, AND SAID THAT AS
A RESULT SOME EUROPEANS--NOT HE--QUESTIONED THE
UTILITY OF THE MTNS. MEMBERS OF THE US DEL RES-
PONDED THAT THE DOLLAR WAS, ON A TRADE WEIGHTED BASIS,
DOWN LESS THAN 1 PERCENT FROM THE MARCH 1973 LEVEL,
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THAT INSO FAR AS DECLINE HAD OCCURRED IT MIGHT BE AT-
TRIBUTED TO THE LOWERING OF US INTEREST RATES--AN
ACTION TAKEN AFTER EUROPEANS ARGUED THE NEED FOR THE
US TO STIMULATE ITS ECONOMY; AND, FINALLY, THE PURPOSE
OF MTNS WAS TRADE LIBERALIZATION. SOAMES THEN REMINDED
US THAT, POLITICALLY, THERE IS A TRADE-MONETARY LINK

THAT WILL HAVE TO BE TAKEN INTO ACCOUNT.

. GRAINS NEGOTIATIONS. LARDINOIS, SOAMES, AND RABOT EXPRESSED THEIR DISTRUST OF US MOTIVATION IN SEEKING TO NEGOTIATE AN AGREEMENT ON GRAINS STOCKPILING IN LONDON. THEY FELT THAT IF THE US ACHIEVED THIS, IT WOULD LOSE ALL INTEREST IN FURTHER NEGOTIATION ON A "COMMODITY AGREEMENT" FOR GRAINS. THEY FEARED THIS DESPITE THE KEEN INTEREST SOAMES EXPRESSED IN THE PRINCIPLES OUTLINED IN THE SECRETARY'S KANSAS CITY AND OECD SPEECHES. THEY DENIED THEY WERE REOPENING THE UNDERSTANDING EXPRESSED IN THE MAY 8 SUMMING UP OF THE MTN AGRICULTURE GROUP'S CHAIRMAN, THAT (A) THE EC WOULD PARTICIPATE ACTIVELY IN THE LONDON WORK AND (B) THAT WORK WOULD BE "INTEGRATED" INTO THE WORK OF THE MTN GRAINS SUBGROUP. BUT THEY ASKED WHY THE US STOCKPILING PROPOSALS COULD NOT BE MADE IN GENEVA, OR AT LEAST SIMULTANEOUSLY IN LONDON AND GENEVA. ARGUMENTS SUCH AS THE PRESENCE OF THE USSR IN LONDON BUT NOT IN GENEVA DID NOT FAVORABLY AFFECT THEIR ATTITUDE. HOWEVER, THEY MADE CLEAR THAT THEY WERE NOT THREATENING WITHDRAWAL FROM THE LONDON WORK. THE US SIDE SUGGESTED, FINALLY, THAT THE QUESTION OF THE RELATION BETWEEN GENEVA AND LONDON BE POSTPONED UNTIL AFTER, IN LONDON IN JUNE, THE US ADVANCED ITS SUB-STANTIVE STOCKPILING IDEAS.

D. US-EC TRADE PROBLEMS. THE US SIDE CALLED THE COMMISSION'S ATTENTION TO THE FOLLOWING:

(I) RULES OF ORIGIN. FOX (COMMERCE) SAID THAT EXPERIENCE WAS DEMONSTRATING THAT THE CASE-BY-CASE APPROACH ADVOCATED BY THE EC WOULD TAKE TOO LONG AND EARLY ACTION WAS REQUIRED. HE URGED GENERAL LIBERALIZATION OF THE EC/EFTA RULES OF ORIGIN, E.G. ALONG THE LINES SUGGESTED BY GERMANY AND THE EFTA COUNTRIES. HIJZEN INDICATED CONTINUED SKEPTICISM ON THIS SCORE BUT SAID THE COMMISSION WAS PREPARED TO CONFIDENTIAL

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CONTINUE DISCUSSING THE ISSUE.

(II) POULTRY. GOODMAN (AGRICULTURE) SAID THE US HAD SUGGESTED MODIFICATIONS IN THE EC IMPORT LEVIES ON POULTRY TO AVOID BEING EXCLUDED FROM THE EC MARKET AND THAT WE WERE AWAITING A RESPONSE. LARDINOIS RESPONDED BLUNTLY THAT IN THE CURRENT DEPRESSED STATE OF THE EC POULTRY INDUSTRY, AND WITH EC POULTRY EXPORTS DRYING UP, THE US SHOULD NOT EXPECT THE COMMUNITY TO DO MUCH TO HELP THE US TURKEY TRADE.

(III) WHEAT EXPORT SUBSIDIES. GOODMAN SAID SOME PEOPLE IN THE US FEARED THE EFFECT ON OUR EXPORTS OF THE RENEWED EC SUBSIDIES. LARDINOIS INSISTED (A) THAT THE EC HAD SHUT OFF COMMERCIAL GRAIN EX-

PORTS BECAUSE OF THE CORN SHORTAGE; (B) THAT IT NOW HAD TO SUBSIDIZE TO EXPORT; BUT (C) ITS WHEAT WAS PRICED ABOVE US WHEAT.

(IV) WINE. THE US SIDE STATED THAT THE EC WINE LABELLING REQUIREMENT WOULD GIVE US PROBLEMS, THAT WE WISHED TO CONSULT ON IT, AND THAT WE HOPED THAT IT WOULD NOT BE MADE EFFECTIVE FOR US WINE UNTIL THESE CONSULTATIONS WERE CONCLUDED. SOAMES AND RABOT AGREED THAT THE TWO SIDES SHOULD GET TOGETHER TO TALK ABOUT WINE--INCLUDING PROPOSED US AS WELL AS EC REGULATIONS. THEY DID NOT RESPOND REGARDING POST-PONEMENT OF THE EFFECTIVE DATE OF THE LABELLING REQUIREMENT.

(V) THE EC CONCENTRATED ON ONE COMPLEX OF PROBLEMS--THOSE ARISING OUT OF THE US COUNTERVAILING LAW. LARDINOIS SPOKE WITH CONSIDERABLE VEHEMENCE ABOUT WHAT HE VIEWED AS A SERIES OF US ACTIONS RESULTING IN CHOKING OFF EC AGRICULTURAL EXPORTS TO THE US, AND WARNED THAT FURTHER SUCH ACTIONS, SUCH AS COUNTERVAILING DUTIES ON CANNED HAM, WOULD PUT US FARM EXPORTS TO THE EC IN JEOPARDY. SOAMES ADDED THAT COUNTERVAILING AGAINST STEEL AND FLOAT GLASS WOULD BE VIEWED AS AN UNWARRANTED ASSAULT ON BORDER TAX ADJUSTMENTS AND REGIONAL AIDS. HE URGED THAT THE USG USE ITS DISCRETION TO AVOID THIS. RAY (TREASURY) AND WOLFF (STR) RESPONDED THAT THE USG RECOGNIZED THE BROADER ISSUES INVOLVED. IT HAD, HOWEVER, TO ENFORCE THE LAW. DISCRETION WAS LIMITED IN SCOPE AND IN TIME--TO FOUR YEARS FROM CONFIDENTIAL

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PASSAGE OF THE TRADE ACT. THE US FELT THAT IT WAS THEREFORE IN BOTH SIDES' INTEREST TO NEGOTIATE A SOLUTION TO THE SUBSIDY/COUNTERVAILING PROBLEM IN THE MTNS. SOAMES RESPONDED THAT HE COULD AGREE TO THIS, BUT HE WAS WORRIED ABOUT US ACTIONS IN THE MEANTIME; AND HE WARNED THAT IF THE US COUNTERVAILED IN THE CASES HE AND LARDINOIS CITED, IT WOULD ADVERSELY PREJUDICE THE CHANCES FOR A SUBSIDIES/COUNTERVAILING AGREEMENT IN THE MTNS. THE US SIDE, FINALLY, SUGGESTED IT MIGHT BE HELPFUL IF THE COUNTERVAILING PROBLEMS WERE DISCUSSED BY THE COMMISSION WITH SUCHMAN (TREASURY) WHEN HE IS IN BRUSSELS JUNE 5, AND THE EC SIDE AGREED.

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5. NORTH-SOUTH RELATIONS. THE COMMISSION STRESSED

TWO POINTS:

A. IT FELT THAT THE LOME CONVENTION, AND PARTICULARLY ITS STABEX FEATURE, REPRESENTED AN IMPORTANT CONTRIBUTION TO DEVELOPED COUNTRIES' THINKING ON HOW TO DEAL WITH LDC'S. THE COMMISSION ALSO SUMMARIZED ITS PROPOSED GATT PRESENTATION OF THE LOME CONVENTION: IT WOULD STRESS POLITICAL AND HISTORICAL RATHER THAN LEGAL ARGUMENTS, NOTE THAT THE CONVENTION HAD BEEN WIDELY WELCOMED AS PART OF A NEW DC-LDC RELATIONSHIP, AND ARGUE THAT THE CONVENTION IS FUNDAMENTALLY IN CONFORMITY WITH THE OBJECTIVES OF GATT. UNDER SECRETARY ROBINSON SAID THAT IN GENERAL THE LOME CONVENTION IS TO BE COMMENDED. HE AGREED THAT A MULTILATERAL STABEX WAS WORTH STUDY IN SEARCH OF THE ANSWER TO THE REAL PROBLEMOF MODERATING SWINGS IN LDC EXPORT EARNINGS. AS FOR GATT, THE US CONCERN IS TO AVOID A CONTROVERSY OVER WHETHER LOME IS COVERED BY ART. 24. GLITMAN (STATE) AND AMBASSADOR GREENWALD NOTED THE CONCERN OF CERTAIN LATIN AMERICAN COUNTRIES OVER LOME, AND URGED THAT THE CARIBBEAN ACP'S CARRY THE BALL IN CALMING THAT CONCERN.

B. SOAMES STRESSED THAT WHILE THE US, THE EC, AND
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JAPAN SHOULD COORDINATE THEIR POLICIES VIS-A-VIS LDC'S,

AND PARTICULARLY BEFORE THE UN SPECIAL SESSION IN SEPTEMBER, THIS SHOULD BE DONE QUIETLY SO AS TO AVOID THE APPEARANCE OF GANDING UP ON THE POOR COUNTRIES.

6. RAW MATERIALS AND ENERGY.

A. COMMISSION VIEWS. SOAMES SUMMARIZED THE RECENT COMMISSION PAPER ON RAW MATERIALS AS HE HAD IN HIS TALKS WITH AMBASSADOR DENT:

--SOMETHING MUST BE DONE ABOUT TARIFF ESCALATION, TO PERMIT LDC'S TO MOVE DOWNSTREAM IN PROCESSING RAW MATERIALS.

--COMMODITY AGREEMENTS SHOULD BE LOOKED AT ON A CASE-BY-CASE BASIS WITH A VIEW TO BENEFITING LDC'S RATHER THAN THE WHOLE WORLD.

--EXPORT EARNINGS SHOULD BE STABILIZED; EITHER ON A NARROW RANGE OF PRODUCTS FOR THE WHOLE DEVELOPING WORLD, OR (SOAMES' PREFERENCE) ON A BROADER FRONT OF PRODUCTS FOR THE POOREST COUNTRIES.

B. PREEG (STATE) NOTED THAT THE US HAD PUT MANY IDEAS ON THE TABLE REGARDING THE RELATED ISSUES OF RAW MATERIALS AND NORTH-SOUTH RELATIONS, AND THAT THERE WERE NOW TWO NEW MECHANISMS IN THE OECD TO EXAMINE THESE QUESTIONS. AN EXCHANGE OF VIEWS WAS NEEDED. WELLENSTEIN AND HIJZEN WONDERED A BIT ABOUT THE MULTIPLICATION OF GROUPS STUDYING THE SAME SUBJECT. WELLENSTEIN FELT THAT THE EFFORT SHOULD BE TO DEVELOP IDEAS AND SUGGESTIONS, NOT TO GIVE THE LDC'S THE IMPRESSION THE DEVELOPED COUNTRIES WERE PROPOSING DEFINITE SOLUTIONS. ROBINSON AGREED WITH THIS LINE OF APPROACH.

C. ENERGY. UNDER SECRETARY ROBINSON OUTLINED THE US PROPOSALS REGARDING RESUMPTION OF THE PRODUCER/ CONSUMER DIALOGUE (REFTEL). SIMONET SAID THE COMMUNITY WAS IN FAVOR OF THE APPROACH RECOMMENDED BY THE SECRETARY, BUT THERE WAS SOME QUESTION WHETHER IT WOULD BE ACCEPTABLE TO PRODUCERS WHOSE RESPONSE WOULD BE AFFECTED BY THE BELIEF THAT THE US ATTITUDE WAS BASICALLY CONFRONTATIONAL. WELLENSTEIN SAID IT WAS VERY INTERESTED, BUT WONDERED WHETHER THREE COMMISSIONS WOULD BE SUFFICIENT TO HANDLE ALL OF THE QUESTIONS INVOLVED, AND ALSO WHETHER THE RAW MATERIALS AND MOST SERIOUSLY AFFECTION COMMISSIONS COULD BE CONFIDENTIAL

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LIMITED IN SIZE. ON THE OTHER HAND, HE FELT THE ENERGY COMMISSION MIGHT WELL BE LIMITED TO PRODUCERS AND DEVELOPED COUNTRY CONSUMERS, LEAVING THE LDC CONSUMERS OUT. TURNING TO ANOTHER ISSUE, BOTH SIMONET AND WELLENSTEIN EXPRESSED EXTREME SKEPTICISM ABOUT THE USEFULNESS OF A FLOOR PRICE. COMMISSION OFFICIALS APPEARED UNCONVINCED BY THE US SIDE'S EXPLANATIONS OF THE CONCEPT, BUT DID, AT LEAST, EXPRESS A DESIRE FOR MATERIAL THE USG

WOULD PROVIDE ON THE RELATIONSHIPS BETWEEN THE PRICES OF DIFFERENT ENERGY SOURCES.

7. COMMENT. THE TONE OF THE CONSULTATIONS FLUCTUATED BETWEEN INTEREST IN EACH OTHER'S POSITION AND A MANIFEST DESIRE TO COOPERATE ON ISSUES SUCH AS RAW MATERIALS AND ENERGY (DESPITE THE DIFFERENCES OF APPROACH NOTED), AND THE RATHER HEATED AND SUSPICIOUS STATEMENTS MADE BY COMMISSIONERS SOAMES AND LARDINOIS ON GRAINS NEGOTIATIONS AND ON COUNTERVAILING. THE AFFECTS OF THE CHEESE AFFAIR ARE STILL BEING FELT AND AFFECT THE BILATERAL DIALOGUE, PARTICULARLY ON AGRICULTURAL AND ON MAINLY BILATERAL ISSUES. THE COMMISSION GAVE US CLEAR SIGNALS THAT IT WILL RESPOND STRONGLY AND NEGATIVELY TO FURTHER US COUNTERVAILING ACTIONS.GREENWALD.

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